

WISCONSIN HOUSING AND ECONOMIC DEVELOPMENT AUTHORITY

Budget Change Item

1. INCREASE CAPITAL RESERVE FUND BONDING AUTHORIZATION

Governor: Increase the limit of outstanding bonds backed by the Wisconsin Housing and Economic Development Authority's (WHEDA) capital reserve fund from \$600 million to \$1 billion. Under current law, WHEDA manages a capital reserve fund, which must maintain a balance sufficient to cover the maximum amount of debt service expected in one year for all bond issues backed by the fund. As of December 31, 2018, \$398.7 million in outstanding bonds were backed by the capital reserve fund. As WHEDA operates as an independent authority, bonds issued under its authority do not carry the general obligation of the state. However, the state has pledged its moral obligation to the capital reserve should it become deficient; no such deficiency has ever occurred. This provision would not have a direct state fiscal effect.

WHEDA reports the proposed increase is necessary to support increased demand for bonding caused by creation of the state low-income housing tax credit under 2017 Wisconsin Act 176. Under the law, developments applying for state tax credits must be financed with tax-exempt bonds, which are issued by WHEDA.

While WHEDA may elect to issue bonds without the backing of the capital reserve fund, the Authority reports that any such issuance would be expected to cost more for both borrowers and WHEDA. Borrowers would face higher interest rates due to less favorable credit ratings on bonds not backed by the capital reserve fund, as the current resolution of bonds backed by the fund is well collateralized and long-standing, which results in a favorable risk profile and lower interest rates. Further, bond issuance not backed by the fund would require WHEDA to incur certain upfront costs associated with creating a new resolution.

Joint Finance: Modify the Governor's proposal to increase the capital reserve fund limit to \$800 million, instead of \$1 billion.

Assembly/Legislature: Modify the bill's language to specify an incremental change of \$200 million to the existing bonding authorization, rather than amending the total authorization.

[Act 9 Sections: 1859b and 1859c]